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Analysis of Business Trends Plus Selected Financial Indicators

Breakdown Of GATT Talks Threatens World Trade

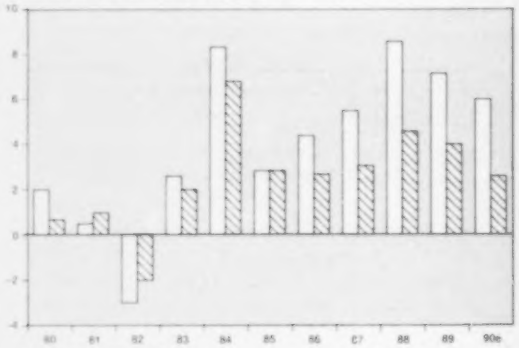
Now that the debt-ridden countries of the developing world and the emerging democracies of Eastern Europe have been won over to the advantages of free markets versus state-managed economies, it would be tragic if they were given a signal that the industrial nations are moving in the opposite direction in the area of international trade. Yet, this is exactly what could happen if the Uruguay round of trade talks, which was suspended last month because of a dispute over farm subsidies between the United States and the 12-nation European Community (E.C.), fails to resume.

The United States, seeking ways to cut its ballooning budget deficit, is insisting on deep cuts in government subsidies to farmers from all members of the international trade body known as GATT (General Agreement for Tariffs and Trade). Supporting the U.S. position is the 14-nation Cairns Group of farm exporting countries, whose members include such industrial nations as Canada and Australia, as well as such less developed countries as Argentina and Brazil. Many of the poorer countries in the Cairns Group who can't afford to subsidize their farmers believe that their export earnings are being reduced because subsidies in other countries rob them of markets for their agricultural products. At the same time, subsidies result in overproduction and, therefore, in lower prices for farm products on international markets. However, proposals to reduce farm subsidies are meeting strong resistance from the E.C., whose farmers are among the most protected in the world. As a result, although agriculture accounts for only 11 percent of world commerce, the trade talks have broken down because the GATT members have refused to reach agreements on other issues until the farm subsidies dispute is settled.

What Is GATT?

GATT has governed world trade in industrial products for 43 years. It was formed shortly after World War II, when representatives of 23 nations met in Geneva in 1947 in an effort to reform the global trading system that was plagued by high tariffs, import quotas and other trade barriers. The resulting general agreement, which stipulates that a trade advantage given to one country must be unconditionally granted to all other GATT members, is linked to an international organization of member countries. Its purpose is to promote trade liberalization through multilateral bargaining rounds and to settle trade disputes between countries by referring to a code of international trading rules.

AVERAGE ANNUAL PERCENT CHANGE IN VOLUME OF WORLD TRADE (CLEAR BARS) AND OUTPUT (SHADED BARS)



Sources: GATT; MH e=estimate

GATT's membership has increased from the 23 founding nations to 107 countries today, who together account for around 90 percent of world trade. Seven completed rounds of negotiations have slashed tariffs from an average of 40 percent in 1947 to less than five percent today. What is more, under GATT, the volume of world trade has grown more than tenfold over the past four decades. Indeed, as the volume of global trade has grown much faster than economic output for most of the 1980s, the world has come to rely on trade as an engine of economic growth (see chart).

Despite GATT's successes, however, the large trade imbalances between the United States, Germany and Japan have strained the global trading system since the mid-1980s, producing a sharp rise in protectionism and non-tariff barriers such as "voluntary" import quotas. In order to confront these problems, as well as to modernize existing trading rules in industrial products and to extend these rules to such new areas as agriculture, textiles, intellectual property, foreign investment and services—which, by the

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way, is currently the fastest growing component of trade for most industrial countries—representatives of the 107 GATT members began meeting in Uruguay in 1986.

Although there has been substantial progress in negotiations in many of these areas, there is now a danger that, unless the farm dispute is settled, the four years of trade talks under the Uruguay round will come to naught. While the European Community should be more flexible—its farmers account for only seven percent of its workforce and produce a mere three percent of its GNP—the United States must remember that the Community's agriculture policy is deeply engrained in its political and social system. Consequently, subsidies cannot be dismantled overnight. U.S. threats to retaliate by increasing its own farm subsidies and by allowing Congress to "look out for our own interests" are also counterproductive.

Free Trade Benefits Everyone

At a time when a number of countries are involved in a war in the Middle East, the United States and several other nations are in recession, global economic growth is slowing and the debt-ridden developing countries and the Eastern European nations are struggling to restructure their economies, the breakdown of the

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	211,643	- 106	- 6,710
New York City (1/16/91)	35,748	+ 371	- 5,935
Commercial Paper (1/16/91)	564,363	- 1,485	+ 31,196

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	321,314	- 637	+ 1,861
New York City (1/16/91)	56,558	+ 667	- 210

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/9/91)	1,072,019	- 136	+ 71,906
New York City (1/16/91)	176,964	+ 2,493	- 4,252

Financial Markets

	Friday 1/25/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.33%	+ .10	- 1.59
180-Day Bills†	6.50	–0–	- 1.33
Longest Bills†	6.58	- .01	- 1.48
Recent Issues:			
7s 1/31/92 (When Issued)	7.09	NA	
7⅛s 1/31/96 (When Issued)	7.67	NA	
8⅛s 11/15/00	8.06	+ .04	
8¼s 8/15/20	8.24	+ .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/24/91)	7.06%	- .04	- .13
Blue List Total ($ Million)	$1,070	- $197	- $ 344
30-Day Visible Supply ($ Million)	$1,380	- $522	- $ 108
Total	$2,450	- $719	- $ 452
Corporates:			
Moody's Aa Composite (1/24/91)	9.35%	+ .02	+ .04
30-Day Visible Supply ($ Million)	$ 735	+ $210	- $2,446
Stocks:			
Dow-Jones Averages:			
Industrials	2,659.41	+ 12.63	+100.18
Transportation	1,036.49	+ 35.43	- 64.68
Utilities	206.93	+ 1.01	- 11.13
65 Stocks	957.77	+ 12.89	- 5.57
N.Y.S.E. Composite Index	183.38	+ 2.51	+ 3.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	191,984	+ 9,778	+10,486

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/25/91	Week Ago
Overnight	6.94%	6.31%
1 month	6.75	7.19
3 month	6.94	7.31
6 month	6.94	7.31
1 year	7.13	7.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/25/91)	Currency Per U.S. $	Week Ago
Belgium	30.74	31.20
Canada	1.1653	1.1597
France	5.0720	5.1400
Germany	1.4925	1.5125
Italy	1121.20	1136.00
Japan	132.35	133.55
Mexico	2960.20	2957.80
Netherlands	1.6810	1.7050
South Korea	705.26	705.06
Switzerland	1.2710	1.2710
Taiwan	26.63	26.74
U.K.*	1.9550	1.9290

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (1/25/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.3%	-6.9%

GATT trade negotiations could not have come at a worse moment. Although an all-out international trade war on the scale of that experienced in the 1930s is highly unlikely, trade friction and increased protectionism could hamper trade flows among nations, limit new business opportunities and the jobs they would create, and curb economic growth at a time when the world economy badly needs an extra boost.

The United States, for example, with its strong competitive advantage in many services, could lose many opportunities if free trade is obstructed in these areas. What is more, because intellectual property is not covered by GATT rules at the moment, the piracy of such items as patents, copyrights, trademarks, and microchip designs is reckoned to cost this country around $60 billion every year. At the same time, the IMF estimates that halting the industrial world's farm subsidies could raise agricultural exports of the developing nations by $30 billion per year. So, while just about everyone loses when free trade is obstructed, perhaps the biggest victims if the GATT negotiations don't resume will be the world's consumers—including Europe's farmers—who will have to pay higher prices for a smaller selection of goods and services. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/23/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	239.185	- 2.902	+12.102
Loans to Depository Inst.	1.354	+ .940	+ .974
Float	.852	- .709	- .108
Total Reserve Bank Credit	280.907	- 2.656	+13.006
Treasury Deposits with Federal Reserve Banks	5.494	+ .174	- .436
Currency in Circulation	283.689	- .879	+28.457
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.886	- .118	+21.244
Member Bank Reserves:	**1/23/91**		
Total Reserves Held	60.476	- 5.986	- .644
Excess (Deficiency)	.653	- 3.038	- .188
Net Borrowed Reserves	.203	+ 3.621	+ .771
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (1/14/91)	820.5	+ 2.0	+ 3.7
M2 (1/14/91)	3,316.9	- 0.2	+ 3.0
M3 (1/14/91)	4,093.3	+ 0.1	+ 1.2
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/25/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.18%	6.24%	6.20%
* Federal Agencies	6.45	6.60	6.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	7.58	7.88	8.03
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.90	6.95	7.10

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.62%	Feb.	6.77%
15- 29 days	6.70	Mar.	6.73
30- 59 days	6.65	Apr.	6.77
60- 89 days	6.75	May	6.73
90-179 days	6.73	Jun.	6.68
180-239 days	6.66	Jul.	6.62
240-270 days	6.66		

‡ Industrial Paper–Prime			
30- 89 days	6.78%	†Federal Funds	
90-120 days	6.75	Effective Rate	8.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90n	$ 5,519	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90n	$ 4,146	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90n	- 2.1	1.4	0.3
Change in Consumer Prices*	Dec '90n	3.6%	3.6%	4.8%
Change in MH Cost of Living Index*	Dec '90n	4.8%	4.8%	4.8%
Change in Producer Prices*	Dec '90	- 7.2%	6.0%	7.2%
Civilian Employment (Thousands of Persons) †	Dec '90	117,574	117,396	117,957
Unemployment as % of Civilian Labor Force †	Dec '90	6.1%	5.9%	5.3%
Personal Income*	Nov '90	$ 4,710	$ 4,697	$ 4,470
Leading Indicators Composite Index (1967=100) †	Nov '90	139.7	141.4	144.6
Industrial Production Index (1977=100) †	Dec '90n	107.1	107.8	108.6
Net Change in Consumer Installment Credit †	Nov '90	$ 1.72	$ 1.37	$ 3.77
U.S. Merchandise Trade Balance †	Nov '90n	- $ 9.70	- $ 10.99r	- $ 9.91
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Dec '90n	987	1,127r	1,273
New Construction Expenditures*	Nov '90	$ 422.4	$ 425.1	$ 433.4
Total Business Inventories †	Nov '90n	$ 816.4	$ 814.3r	$ 797.6r
Total Business Sales †	Nov '90n	$ 545.0	$ 551.6r	$ 528.2r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. e-Anticipated.

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